



Rural Telephone
Finance Cooperative

Ex Parte Presentation of Rural Telephone Finance Cooperative

WCB Dkt No. 10-90
August 9, 2011



Rural Telephone Finance Cooperative

- **Formed in 1987**
- **Not-for-profit, member-owned cooperative association**
 - Owned exclusively by its 490 members
 - Cooperative and commercial RLECs eligible to participate in RUS loan programs.
 - Member of NTCA, OPASTCO and WTA
- **Principal purpose: Provide members with financing supplemental to RUS loan programs**
 - Provide member borrowers with competitively priced, cost-based products and services consistent with sound financial management.
 - Lend to members using a combination of funds borrowed from National Rural Utilities Cooperative Finance Corporation and equity investments from members.

Financing

- **Long-Term Loans**

- Maximum term of 10 years. Generally not to exceed the economic life of the borrower's assets.
- Variable or fixed interest rates offered. Borrower may select multiple tranches of debt, choosing fixed or variable rates per tranche.

- **Short-Term Loans**

- Generally unsecured or revolving lines of credit for liquidity and cash management.
- Limited to terms of five years or less.



Financing (cont'd)

- **Interim Financing**

- Interim funds (up to 24 months) made available:
 - As member obtains RUS approval to secure interim financing or as RUS loan application is pending, or
 - After RUS approves long-term financing and initial advance is pending.



RTFC Financing to RLECs, 5/31/2011

- **More Than \$1 Billion in Aggregate Outstanding and Committed Loans**



Loan Qualification Criteria

- **RLECs must demonstrate the ability to achieve and maintain:**
 - Annual Debt Service Coverage Ratio (DSC) of 1.25
 - Annual Times Interest Earned Ratio (TIER) of 1.50
 - Total Debt to Cash Flow (Leverage) of 3.5:1 or Lower
- **Other Factors:**
 - Cash flow
 - Liquidity
 - Capitalization
 - Revenue composition
 - Quality of Earnings
 - Asset Quality
 - Competition
 - Position within industry
 - Federal, state and local regulation
 - Demographics



Importance of Equity to RLECs

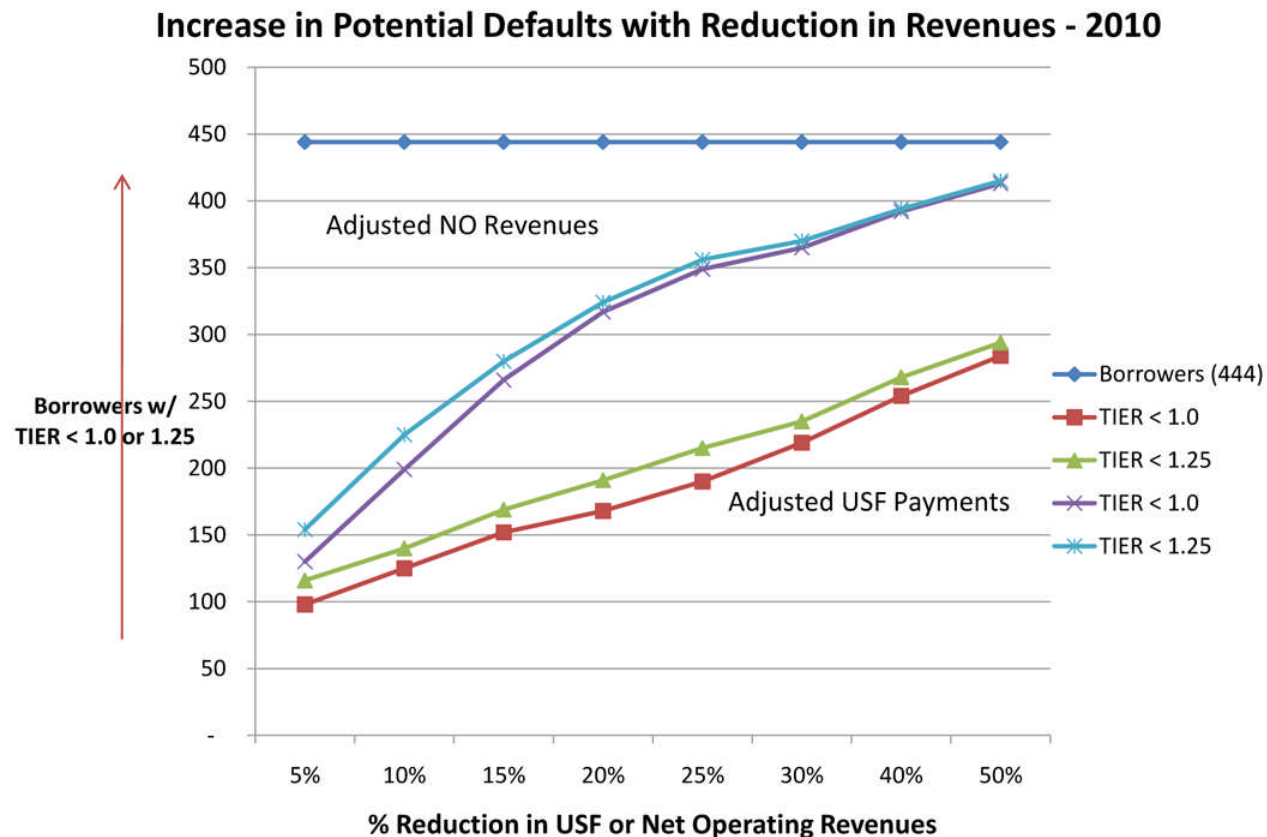
- **Borrower's Typical Debt/Equity Ratio**
 - 60% Debt / 40% Equity
- **Equity Growth Is Challenging for RLECs**
 - Cooperatives and commercial companies can grow equity through retained earnings over time, but equity can be consumed rapidly by losses.
 - Commercial RLECs have access to equity financing, but universe of investors is limited.



Importance of Cash Flow to RLECs

- **“Double-Whammy” of Member Revenue Reductions**
 - Reduced cash flows lower profits, impairing equity growth and ability to grow and upgrade with internally generated funds.
 - Deterioration of financial performance (TIER, DSC, and leverage) impair access to capital markets for growth.
- **RTFC’s core interest: Minimize the magnitude and pace of reductions in RLEC cash flows.**

RUS Analysis Shows Potential for Severe Deterioration of Rural Telcos Financial Capacity



- Source: Rural Utilities Service, USDA, August 1, 2011, Ex Parte Filing to FCC



RTFC Conclusions:

- **RTFC would be challenged to provide future loans to RLECs for capital expenditures if established metrics of creditworthiness cannot be satisfied.**
 - TIER ratios severely affected by NPRM proposed USF changes; impact compounded by ICC proposals
 - Failure to maintain TIER ratios increases likelihood of payment defaults as well as breaches of loan covenants.
- **Capital markets and private lenders would react positively to regulatory certainty and cash flow stability by adoption of RLEC associations' proposals for USF and ICC.**



Rural Telephone
Finance Cooperative

Questions?

Thank you.